

Section II

Responsibility 1a: Federal Grants
Federal Categorical Programs

II. Acquisition and Administration of Federal Funds: Categorical Programs

“State-level responsibilities associated with the acquisition and administration of federal grants on behalf of funding or services for all eligible District schools including public, public charter and private schools...including preparation of state plans, applications for competitive grants, setting of state-wide standards and assessment, allocation of federal funds among eligible schools, monitoring of compliance with federal requirements, and submission of reports.” State Education Office Establishment Act of 2000, Section 6(b)(1).

A. Background

1. Introduction

In addition to Federal elementary and secondary grants programs, the State Education Office Establishment Act of 2000 calls for the State Education Office (SEO) to study administration of Federal grants in post-secondary institutions. The SEO has determined in Section VII of this study that state-level responsibility for adult education should remain at the University of the District of Columbia. Since post-secondary functions located in the Office of Post-secondary Education Research and Analysis (OPERA) are to be transferred to the SEO as of the Fiscal Year 2002, this section on the acquisition and administration of Federal grant funds will not give further consideration to transferring responsibility for the administration of post-secondary grants funds to the SEO.

It should be noted, also, early in this discussion that funds to support state administration of Federal grants are a very small portion of the total funds received for Federal programs, and do not include funds used to provide services to children. A more detailed discussion of this issue can be found in 5, State Level Responsibilities.

District of Columbia Public Schools (DCPS) receive funds from the Federal government from several different program sources. These programs may be grouped into four categories. First, there are several formula grant programs. These programs distribute funds to local school districts through states on the basis of formulas contained in the program legislation. For instance, Title I of the Elementary and Secondary Education Act distributes funds on the basis of the number of children in poverty living in each school district. The state receives the total amount that all school districts in the state are entitled to receive and distributes the funds, according to the formula, to the local school districts. Local districts must apply for the funds and the applications must be approved by the state, but the amount of each grant is set by the formula. State review of applications is to ensure that districts spend funds in accordance with Federal requirements. States are responsible to see that funds are properly spent and to withhold a portion of the total state allocation, which varies among the various programs, to cover the cost of administration. In essence, the state is acting as an agent of the Federal government.

With state formula, local competitive grants, states receive money from the Federal government on a formula basis, usually tied to overall enrollment or enrollment of poor

children in the state. However, these funds are not allocated to local districts on a formula basis; rather, local districts apply to the state on a competitive basis. The state uses criteria outlined in Federal law to make awards, and not all districts receive funds. The amount of each grant is set by the state, though some programs set minimums that must be awarded. An example of this type of program is the Comprehensive School Reform Demonstration Program.

A third category of grants are those that go to the state education agency for its own use. There are two ways states receive these funds. Some formula grant programs, such as Title VI of the Elementary and Secondary Education Act, allow states to retain a portion of the state allocation for state-level activities. Usually, these are activities that will benefit all or many school districts, such as professional development for teachers on new state curriculum or assessments. Secondly, some programs allow state educational agencies to apply for grants on a competitive basis. In these cases, states may be competing among themselves or with other agencies that are eligible to apply.

Finally, DCPS receives direct competitive grants. These are grants that the Federal government makes directly to local school districts on the basis of competition conducted by the Federal government. These funds are not administered by the states and are not at issue in this discussion.

Because of the status of D.C. as both a city and a state (for the purposes of Federal education funds distribution), the line between state and local school district operation and responsibilities laid out in Federal legislation is not clear. Prior to the establishment of public charter schools in the District of Columbia, this was not a problem, since there was only one school district in the state. Over the past six years, however, a significant change in the system of public education in D.C. has taken place. Today, the city has more than 35 public charter schools, each of which is a local school district, separate from DCPS. Federal education law holds states responsible for the administration of dollars that states allocate to member districts. In essence, this gives DCPS, the current state agency for the purpose of Federal programs, oversight of more than 35 other school districts in regard to receipt and use of Federal funds.

2. Legislation

There are several pieces of relevant legislation.

- Public Law 90-292 passed by Congress and signed by the president in 1968, established an elected Board of Education for the District of Columbia, and vested control of the schools in the District in that elected Board.
- Section 495 of the Self-Government Act (Public Law 93-198) reiterated that control as a Charter provision.
- The Charter Amendment Act clarified the Board's control of public schools and provided for the establishment of a State Education Office. In part, the Act stated that

the Council could delegate to the SEO a set of responsibilities and “any other responsibilities not inconsistent with this Act.”

- Public Law 103-382, the amended Elementary and Secondary Education Act (ESEA), defines a State Education Agency for purposes of receipt and dispersal of Federal funds. Section 20 USC 8801 (2) defines a State Educational Agency as “the agency primarily responsible for the State supervision of public elementary and secondary schools.” The same definition is included in the General Education Provisions Act and in the current proposal for the reauthorization of ESEA. It has not changed since the original passage of ESEA in 1964. Note that a separate definition of a State Educational Agency contained in the Adult and Vocational Education Act allows a separate state agency be designated for adult education.
- Charter School legislation is covered in two acts -- Federal, District of Columbia School Reform Act of 1995 (110 Stat.1321-107), and District, Public Charter School Act of 1996 (D.C. Law 11-135). Both pieces of legislation provide that charter schools established in the District, whether by the Public Chartering agency or the Board of Education, are local educational agencies (LEAs) separate from DCPS. However, for the purposes of Part B of the Individuals with Disabilities Education Act, they may choose to be treated as DCPS schools, rather than separate LEAs.

3. History

Prior to 1994, the District maintained separate state and local offices for the receipt and administration of Federal funds. Both were under the jurisdiction of the Board of Education and the Superintendent, who served as both the Superintendent of Schools and the Chief State School Officer. The state office was responsible for functions specified for states in Federal legislation, while the local office assumed responsibility for those activities specified for local school districts. However, many of the functions Federal law attributes to state education agencies flow from general state authority for the operation of education systems within the respective states and from the need for the Federal government to utilize that agency to serve the many local districts within each state. For instance,

- Federal law for formula grant programs often stipulates that states shall make allocations to its member districts or, in some cases, hold competitions among its member districts to determine which districts will receive funds. In the case of formula allocation of funds, the state agency is responsible for applying it correctly, which may entail gathering information necessary to make the computations. Competitive grant programs normally also have Federal criteria, which may be supplemented by those established by the state, and allow states to set priorities, establish range in the size of awards, and make final decisions on who the grantees are and how much money each will receive.
- Federal law also often requires states to be responsible for receiving and approving of applications for formula grant programs. Generally, Federal law will include criteria to be used in the review and allow states to add their own criteria to the Federal list. Law also generally allows states to set priorities, as long as they do not amend Federal law.

- States are responsible for monitoring the use of the funds. This includes both fiscal and programmatic review. States also prepare for and accompany Federal officials on their review of programs.
- States are required to provide technical assistance to local educational agencies. This ranges from providing information on Federal programs and interpretation of statutes and regulations to assistance with teaching and learning.
- States complete summary reports of activities of all districts in the state. These reports usually contain evaluations of the various programs.
- States are responsible for the financial audit of funds received and for ensuring that audits are conducted by the LEAs. They also review LEA audits to determine compliance with Federal law.
- States develop state plans intended to influence local district activities. Since 1995, these plans have been allowed to encompass several programs rather than being limited to only a single program.

(For additional information on these functions and how they are currently administered by DCPS, see the discussion under Current Status below.)

This relationship between the SEA and the local districts was designed for situations where the two entities were separate and where there was one SEA and several, perhaps several hundred, local districts. Until recently, neither of these conditions existed in the District. In effect, the Superintendent and the Board, through the SEA, were monitoring themselves, state functions that involved many local districts did not exist, and it was difficult to separate one part of the agency from the other.

In the early 1990s, because of these special circumstances, the then Superintendent called for a review of the administrative structure. He chose to involve the U.S. Department of Education in this review, since the establishment of the state office was in response to Federal law that vested authority for the operation of several Federal programs in the state education agency. The review concluded that there was a need for a state office within the District, but that it should be greatly downsized and many of the positions assigned to it transferred to the LEA. At the time of the review, there were approximately 124 positions within the SEA, including six vacancies (*Briefing Book*, June Gregory, May 1, 1992). The plan adopted called for 33 positions to remain with the SEA, 23 on regular budget, eight on Federal funds, and two on matching funds. Eighty-two positions were identified for downsizing or redeployment, 39 of which were Federally supported. Both the state and local offices remained under the jurisdiction of the Board and the Superintendent.

4. Program Description

For school year 1999-2000, the most recent year for which full data are available, D.C. Public Schools reported receiving \$86,780,543 in grants, not including Food and Nutrition (District of Columbia Public Schools, Grants Awarded SY 1999-00). As of March 2001, the District has received approximately \$64 million (not including food and nutrition) for this school year. The list includes grants made directly as a local school district and those it receives as the State Education Agency. In the latter category, the major grants are as follows:

<u>Program</u>	<u>Grant Amount</u>
Title I, ESEA grants to LEA (high poverty schools)	\$25,547,302
Title I, Migrant education	442,772
Title I, Even Start	900,670
Title II, ESEA Eisenhower Prof. Development	1,391,475
Title III, ESEA Technology	2,250,000
Title IV, ESEA Safe and Drug Free Schools	1,714,396
Title VI, ESEA Innovative Education	1,815,949
Vocational Education	1,395,364
Charter Schools	3,344,546
Charter Schools Supplement	1,792,621
Class Size Reduction	6,049,043
Reading Excellence	4,205,500

Note: At the time this was prepared, DCPS had not yet received its special education grant, so it does not appear here. The previous year, DCPS received in excess of \$10 million for this program

Each of these programs has its own specific purpose. Following are some illustrative examples.

Title I, ESEA. This program provides funds, on a formula basis, to states and, through them, to LEAs to improve the education of low-achieving children attending schools with high rates of poverty. States must submit plans to the Federal government and districts must submit plans to the state. School districts rank schools on the basis of poverty levels and provide funds to the schools, beginning with the highest poverty rate schools first. Schools must be above the district poverty rate, or have a poverty rate over 35%, in order to be able to participate. Schools that receive funds may use them for special programs targeted toward their lowest performing students, such as summer school or after-school programs, or to improve the school as a whole, or a combination of both. As a measure of accountability, states establish assessment systems to measure student progress and set annual expected gains for LEAs. LEAs set similar goals for schools. Schools and LEAs that fail over time to make progress are subject to corrective actions by the LEA (for schools) or the state (for LEAs). States and LEAs have certain responsibilities for provision of technical assistance to low-performing LEAs and schools. Almost all schools target reading/language arts as the first priority for improvement, with mathematics second. Most of the funds go to elementary schools.

Title II, ESEA. This program provides funds to states and LEAs to support professional development of teachers, especially in mathematics and science. State and local plans are required. Most funds are passed through the states to LEAs, but some may be retained by the state and some are allocated to institutions of higher education. Because of the relatively small size of the program, small LEAs (such as charter schools in the District) form consortia, pooling their funds to provide professional development. The program has established guidelines for sound professional development and asks states and LEAs to follow them. Funds are not usually distributed to individual schools, but are used at the District level.

Title III, ESEA. This program provides funds to states, on a formula basis, to improve access to and use of technology in LEAs, especially those with high poverty and low technology. The law includes a state minimum, which is the amount the District receives. (Minimums are in several formulas and generally benefit the District, since, in comparison with most states, the District of Columbia is small.) A state plan is required, as is one for LEAs competing for funds. Funds are awarded to LEAs competitively. States establish criteria, within guidelines set in the legislation, review applications, and fund applications in order of quality until the funds are depleted.

Special Education is described in Section III of this report. A list of all Federal funds received by DCPS for the 2000-2001 school year as of March 2001 is included as Appendix B1.

5. State Level Responsibilities

Most of the dollars states receive are distributed to LEAs within the state, either by formula or through a competitive process. For administration of the programs, to provide assistance to member school districts, and to carry out statewide functions, states are allowed to retain a portion of the state allocation. This varies from one-half of one percent for Title I to up to 15% for Title VI. (One current program, funded for school year 2000-2001 and not during 1999-2000, allows 20% retention.) Since the amounts states may retain is allowed, but not required, states may choose to keep the maximum amount allowed, any amount less than the maximum, or pass all dollars on to the LEAs. However, the required state activities must still be performed. For instance, Title I law currently requires that states establish assessment systems to evaluate school performance in reading and mathematics annually and set acceptable levels of progress for student performance for districts in the state. Since this function must be carried out whether or not the state retains state administration funds, states normally retain the maximum allowed by the various programs. States are required to account for the funds to ensure that they were spent for Federal purposes and not for general administration of the state agency.

It should be clear that, in transferring state administration to the SEO, only funds related to state administration, not those related to the operation of the programs would be transferred. State administration funds are only a very small portion of the funds received for Federal programs. The following are some illustrative samples (amounts are rounded):

<u>Program</u>	<u>SY 2000-2001 Allocation</u>	<u>State Administration</u>
Title I, ESEA	\$26 million	\$400,000
Title II, ESEA	1.6 million	80,000
Title III, ESEA	2.2 million	110,000
Title IV, ESEA	1.7 million	85,000
Class Size Reduction	6.0 million	0
Charter Schools	5.2 million	260,000

More importantly, these are funds DCPS uses to carry out its state administrative activities, not funds used to provide services to children. Transfer of the functions and the state administrative funds used to support the function will have no effect on the amount of funds available to DCPS and the public charter schools to serve children.

In addition to the distribution of funds to local districts, Federal law includes other responsibilities for individual programs. A number of these general state-level responsibilities are described in Section 3 above. Following are more specific descriptions of several responsibilities:

- Most programs require construction and submission of a state plan for use of the funds, as well as other requirements. The plan for Title I, for example, requires states “to demonstrate that the State has developed a set of high quality, yearly assessments, including assessments in at least mathematics and reading or language arts, that will be used as the primary means of determining the yearly performance of each local educational agency and school served....”(20 USC 6311). These assessments not only measure the effect of Federal programs on education, they measure the effect of the entire educational effort, funded from Federal, state, and local resources, and the efforts made by children in schools.
- Title III of ESEA requires that, in order to receive funds, the state must submit “a statewide technology plan” and describes the required content of the plan (20USC 6848). The plan is not restricted to how the Federal funds will be spent – rather, it is an overall plan for technology implementation and use in schools throughout the state.
- Title IV of the Act describes state level responsibilities that must be carried out, such as “training and technical assistance concerning drug and violence prevention” and “the development, identification, and evaluation of the most readily available, accurate, and up-to-date curriculum materials” (20 USC 7113).
- Virtually all programs also require an evaluation of the effectiveness of the effort and submission of reports to the Federal government. Reports routinely include information on participation of students and faculty, demographic information, and evaluation information. (A list of state-level functions for the various programs, prepared by the DCPS Office of Categorical Programs and Development, is included as Appendix B2.)

Currently, the reauthorization of ESEA is under consideration by Congress. This most likely will change the composition of the programs states administer, mostly through consolidation of several smaller programs into fewer larger ones, and increased flexibility for states in use of funds in exchange for increased state-level accountability for improving student achievement. The largest of the programs, Title I of ESEA and Special Education, will remain as separate programs. More importantly, the proposed legislation would increase the role of the state in assessing student progress, expanding the grades and subject areas in which students would have to be assessed, increase involvement of the state in situations where schools fail to improve, and call for remedies when failure persists over time.

In financial matters, the Federal government holds states accountable for the proper distribution and expenditure of funds the state receives, including funds it allocates to LEAs. In practice, should a misuse of Federal funds by an LEA occur, the Federal government would seek restitution from the state, leaving it to the state to seek recovery from the LEA. For this reason, states routinely establish procedures to guard against misuse and monitor the local district's operation of Federal programs the state administers.

Members of the Office of General Counsel in the U.S. Department of Education have informed the SEO that, once an organization is designated the state education agency for Federal programs, it assumes responsibility for all programs and all functions attached to that agency. Organizations may not pick and choose among the programs for which they wish to be considered the state education agency, nor may they assume responsibility for some functions but not others.

6. Current Status

Currently, the Office of Categorical Programs and Development administers the functions of a state education agency for schools, including public charter schools, in the District of Columbia. The office is headed by an assistant superintendent and has 23 staff members, seven of whom are support staff. According to the DCPS proposed Operating Budget for FY 2002, the Office received \$10,000 in general funds for FY 2001. The remainder of the office budget came from the Federal programs the office administers (see discussion above on state retention of funds). In addition to this office, an undetermined number of other positions/activities in DCPS are supported with funds retained for state use. The information has been requested from the DCPS Finance Office. The Office of Categorical Programs is organized into four teams -- Grant Independence (Charters/Non-Publics), Production/Monitoring, Fiscal Resource, and School Support. A detailed description of the functions of these teams is included in Appendix B3.

In general, the activities of the teams related to state functions may be summarized as follows:

- Procure and distribute Federal funds. This involves writing applications or state plans, submitting them to the Federal government, and making any needed modifications. While most programs establish formulas for distribution of funds to states so that each

state has an allocation, some do not. In these cases (the School to Work Program is an example), states compete among themselves for funds.

- Once received by the Office, funds are allocated to the various LEAs -- DCPS and the public charter schools. For programs that contain Federal formulas for distribution to LEAs, such as Title I of ESEA, the Federal formula is used to allocate funds. DCPS has established procedures for the allocation of these funds. The allocation procedure for Title I, ESEA funds, is included as Appendix B4.
- For programs that require districts to compete for the funds, such as the Reading Excellence Act, DCPS contracts with the Office of Research and Analysis in the Office of the Chief Financial Officer to run the competition. (According to members of the Office of Categorical Programs, this was done to remove the appearance of conflict of interest on the part of DCPS.) The Office of Research and Analysis solicits applications from DCPS and the public charter schools, hires outside readers to evaluate the proposals, using the criteria established for each program, ranks the applications according to the readers' scores, and submits the ranking to DCPS. DCPS then makes awards to the highest ranking applications, in rank order, until funds for the program are exhausted. Although the evaluation and rank order are advisory and DCPS may choose not to follow them, the head of the Office of Research and Analysis stated that the order is routinely followed and that there have been no protests regarding any of the competitions the Office has run for DCPS. A copy of the solicitation of applications for the Reading Excellence Act is included as Appendix B5.
- Provide technical assistance. This includes following Federal legislation and regulations: keeping districts and schools informed about Federal programs, providing assistance in developing local applications, help in following Federal requirements, and providing assistance in improving programs. Due to the requirements for evaluation contained in many programs, technical assistance in specific subject areas may also be necessary. Title I students are assessed annually in reading and mathematics. If districts fail to make adequate yearly progress in the achievement of those students, State Education Agencies are required to provide them with assistance. The Office of Categorical Programs has two difficulties in performing this activity. First, the Office is part of DCPS and, in effect, is asked to provide technical assistance to itself. Since the purpose of the technical assistance activity is to provide help from an outside source (the LEA), the Office of Categorical Programs cannot really fulfill that purpose. Secondly, the Office, as a part of one LEA, is not really equipped to provide the assistance to other LEAs (public charter schools) in the District of Columbia.
- Monitor implementation of Federal programs for adherence to Federal requirements and for quality. This is done through reports as well as visits to schools. Because of the nature of the relationship between DCPS and the public charter schools, the Office of Categorical Programs does not monitor programs in the charter schools, although it remains responsible for the proper expenditure of Federal funds in those schools. The Office sought to have Special Education services in public charter schools monitored by an outside agency, but was unsuccessful in the attempt. Consequently, the monitoring

function in regard to the charter schools is not being carried out. In addition, the monitoring of the schools in DCPS also poses a problem, since the DCPS, through the Office of Categorical Programs, is, in effect, monitoring itself. Consequently, in this area, as in technical assistance, the Office of Categorical Programs is hampered by its position as part of DCPS.

- Monitoring also involves cooperation and participation in monitoring carried out by the U.S. Department of Education.
- Complete and submit reports and evaluations required by the various programs. These reports and evaluations include information from DCPS as well as the public charter schools that receive Federal funds. Requirements vary among the various programs — some require them annually, others less often. The same is true of evaluations, though they typically require some annual gathering of information.
- Administer state-level activities contained in certain pieces of legislation. As noted earlier, Title VI of ESEA allows states to retain up to 15% of the allocation for these activities. These usually involve activities that serve all districts, such as professional development on topics such as content standards or assessments. While not extensive, the activities are often important.

B. Description of Practices in Other States

To determine how other states handle Federal programs and search for arrangements that might benefit the District of Columbia, a web search of virtually all states was conducted. Materials were gathered from New Mexico, Utah, Kansas, North Dakota, New Jersey, and Connecticut. Below is a description of how the function is handled in Kansas, New Mexico, and North Dakota. These states were selected because they represent a cross section of states based on the degree to which they integrate their Federal and state administration of Federal programs.

Kansas has a unit to administer state and Federal grants programs. New Mexico has no unit for that purpose. North Dakota has a mixture of units to administer some programs separately, while in other states, Federal and state efforts are integrated. Please note that there is no state that provides a model that completely separates Federal programs from state-supported programs and state legislation, regulations, policy, and procedures.

Particularly since 1994, the U. S. Department of Education has sought to have states use Federal funds to support overall state reform and improvement activities rather than exist on their own, outside the general structure. States have moved from organizations that had offices for Federal programs, with staff assigned to individual programs, to being functional organizations.

Kansas

This state has an office entitled “Consolidated and Supplemental Programs” that administers Federal funds the state receives (some \$94 million) and administers \$50 million in state funds. The primary functions of the unit are also “to approve Federal and state grant program applications, monitor programs for compliance, provide technical assistance, evaluate programs, interpret Federal and state policies, and distribute funds based on formula requirements.” To carry out its functions, the unit employs 16 professional staff and nine technical assistants. The unit also develops and distributes pamphlets related to Federal programs, such as one entitled *Participation of Private Schools/Students/Staff in Federal Education Programs*. Staff is assigned specific program responsibility, with each member being assigned to several programs, both Federal and state. Staff members are responsible for the programs within the LEAs throughout the state.

New Mexico

Organization of the Department of Education in New Mexico is illustrative of the integration of Federal programs into the overall state educational effort. The Department has seven sections: Learning Services, the Alternative Education Unit, the Bilingual and Multicultural Unit, the Curriculum and Instruction Unit, the Indian Education Division, the Instructional Materials Bureau, and the Special Education Unit. Most of these units (except Instructional Materials) have both state and Federal program responsibility.

Learning Services provides leadership at state and departmental levels in meeting the needs and requirements for education in New Mexico. The unit oversees other units within the Department and provides technical assistance and direction to local school districts, local boards of education, and other educational entities.

The Alternative Education Unit is responsible for the implementation of state and Federal laws regarding public charter schools. It also provides information and assistance to parents, community members, schools, and district personnel on home schools, family schools, and non-public schools.

The Bilingual and Multicultural Unit is responsible for the State Bilingual Program and Federal programs funded under Title VII of ESEA, the Federal Bilingual Education Act.

The Curriculum and Instruction Unit provides statewide leadership in instruction in the various disciplines, as well as Even Start/early childhood education, elementary, middle and secondary school education, school counseling, character education, and library/media facilities.

The Indian Education Division administers Federal and state programs serving Native American children and provides a liaison between the department and Indian tribes statewide.

The Instructional Materials Bureau administers state approval of instructional materials. (New Mexico is one of 22 states that approve lists of materials that are designated for use within the state.)

The Special Education Unit administers both the state and Federal special education dollars as one program.

North Dakota

This state is an example of one that has units that administer Federal programs separately, as well as those that integrate state and local efforts. For instance, the state has one unit responsible for Title I of ESEA, including the basic Title I program, as well as the Even Start Program for young children, the migrant education program, and the program for the education of homeless children. However, the state also has a unit called School Improvement that is responsible for overall administration of the Department's school improvement efforts, including those in Title I schools. This unit also coordinates department conferences related to school improvement, and administers Goals 2000 and Title VI of ESEA, two Federal programs devoted to school improvement. The Educational Technology Unit administers all grant dollars related to implementation of educational technology in the schools, as well as technology-based efforts to make all students literate in reading, science, and other core academic areas. Federally supported staff are spread among these, as well as other, units within the department.

Other states have different arrangements. For instance, Connecticut has a Division of Grants Management that administers Federal programs, but also manages state grant funds, including state grants for school construction.

New Jersey

This state has two units that further illustrate the integration of state and Federal programs. First, there is an Office of Technology. Among its functions are the operation of community-based access sites, provision of technology training at community-based resource centers, assistance to districts in local technology planning, and, as it is the state office for E: Rate (reduced cost for Internet access for schools and libraries) and the Technology Literacy Challenge Fund (Title III Of ESEA), and operation of Special Education/Assistance Technology training. Similarly, the public charter schools office in that state receives, reviews, and approves applications for charter schools, distributes state funds to the schools, and administers the Federal charter school program.

In summary, the trend among states is away from separate offices for the administration of Federal programs and toward the integration of those programs into an overall state effort. The reauthorization of ESEA, currently underway, will support that movement by providing more flexibility for states in use of Federal funds, so that Federal funds can better support state efforts rather than stand alone.

C. Statement of Options

Option One: Transfer the responsibility for the administration of Federal grants to the State Education Office.

Discussion:

This would entail having the SEO designated as the State Educational Agency for the purpose of receiving and administering Federal funds. It would also require that the SEO take on all functions related to Federal programs. This would include establishment of an organization capable of carrying out these functions, such as the assessment and program improvement functions contained in Title I of ESEA and the numerous state-level functions associated with the Individuals with Disabilities Education Act described in Section III. Persons currently in DCPS supported with Federal funds for state-level administration would have to be transferred to the SEO or, alternatively, the funds transferred, with the persons assigned to other responsibilities and new persons acquired to carry out the tasks. Depending on the timing of the transfer, the SEO would need to be prepared to respond to the new requirements for assessment contained in both the House and Senate versions of the reauthorization of ESEA, which is nearing completion. The SEO would become the responsible agency for administration of all Federal funds and all activities related to them.

Advantages:

- Removes the appearance of conflict of interest in DCPS management of funds that go to both DCPS and the public charter schools.
- Provides for monitoring of the use of Federal funds by public charter schools, thereby reducing the chance of misspending of funds and audit problems.
- Allows for better provision of technical assistance and timely distribution of information regarding Federal programs to charter schools.
- Places Federal funds in the hands of an agency that serves all school districts in the city.
- Is somewhat consistent with the vision of the SEO and more properly aligns the State Education Office of the District of Columbia with state education agencies in states across the country.
- Provides an external oversight of Federal funds received by DCPS.
- Places the SEO firmly in the accountability arena, in effect, overseeing DCPS and charter schools in their receipt and use of Federal funds.

Disadvantages:

- Federal definition of state educational agency requires that all state agency functions assigned to the SEA be performed by the same entity; hence, there can be only one SEA under ESEA provisions. This requires a fairly large office or extensive contracting to carry out functions.

- Because the programs supported by Federal and local funds often are merged at the program delivery level, this will also entail some review of the general educational services the schools provide.
- It will require DCPS to maintain an office to coordinate Federal and local services while losing the Federal funds for state administration it now uses partly for that purpose. However, this is consistent with the operations of school districts in other states.
- Separation from DCPS will involve a complex set of tasks, requiring collaborative planning and good faith efforts; it could be difficult to accomplish.

Option Two: DCPS continues to be responsible for the state-level functions related to receiving and administering Federal grants.

Discussion:

DCPS would continue to be the recipient and administrator of Federal funds allocated to both it and the charter schools, would allocate formula grant funds to itself and the charter schools, and would support competition for funds that are awarded to states but competitive for districts within the state. DCPS would continue to be the agency responsible for state-level functions assigned to the state in various Federal laws.

Advantages:

- Is the least disruptive to DCPS and to the operation of Federal programs.
- DCPS allocation of Federal dollars appears fair and reasonable. Steps have been taken to lessen the appearance of conflict of interest.
- DCPS staff is knowledgeable about Federal programs and has a positive relationship with the U.S. Department of Education.
- Maintains the SEO at a reasonable size and does not require it to take on an additional major management responsibility during its early development.
- Although there is no clear evidence that transfer to the SEO would result in better management of the funds and programs, the last Federal review of the Office of Categorical Programs did not contain any adverse findings.
- Avoids possible disruption of the progress being made by DCPS in improving services to children with disabilities.

Disadvantages:

- Retains appearance of conflict of interest, since DCPS, as the SEA, allots the funds and, as an LEA, is also a recipient of them.
- The SEO would have a greater incentive to provide more thorough technical assistance and monitoring of fiscal accountability and process and procedures.
- Leaves Federal programs in charter schools unmonitored by the agency responsible for the proper expenditure of Federal dollars. This is especially troublesome since charter school staff might unwittingly misspend funds. Both the charter schools and DCPS are at risk of audit problems. As the SEA, DCPS receives funds to carry out this function. (Please note that the lack of monitoring is a result of the unique relationship between DCPS and the charter schools and not due to lack of diligence by DCPS.)
- Does not provide technical assistance to charter schools from Federal sources, though, as the SEA, DCPS is responsible for performing this function. As with monitoring, this is due to the relationship between DCPS and the charter schools, not due to lack of diligence by DCPS.
- Potentially places charter schools on an unequal footing with DCPS in regard to access to information and expertise. As the SEA, DCPS is the conduit of information between the Federal government and the local school districts. Having initial access to information and direct personal relationships with personnel in the Federal government may provide DCPS with some advantage. For instance, DCPS, as the SEA, attends conferences of states conducted by the Federal government to pass on information, explain new initiatives, and gather input from states on Federal policies.

D. Recommendation and Rationale

Recommendation

Transfer the function to the SEO.

Rationale

While the transfer will be difficult to do, there are several compelling reasons to do so:

- The need to address the appearance of conflict of interest. While the Office of Categorical Programs has taken steps to minimize this issue, it will remain as long as DCPS is both the decision-maker in the distribution of funds as well as a recipient of those funds. As noted above, the conflict of interest also arises in the receipt and

distribution of information from the Federal government and in DCPS's role as the Federal point of contact for all LEAs in the District of Columbia.

- To ensure the provision of adequate technical assistance to the public charter schools. As noted above, DCPS is not positioned to perform this function well, even if disposed to do so. The SEO would be better positioned to perform this function.
- The need to monitor the use of Federal funds in the charter schools as well as in DCPS itself. DCPS appears unable to perform this function for the charter schools and should not be required to monitor its own use of Federal monies.
- Recognition that the District of Columbia, like almost every other state, is not a single LEA entity, but has many LEAs within its borders, and the number grows each year. There is a need for overall coordination of Federal activities among the many LEAs and for state-level functions to be performed by an agency that spans all LEAs, rather than having one of the LEAs in the jurisdiction handle those functions.

E. Application of Decision Criteria

This section discusses the State Education Office's assessment of the degree to which transfer of the function would satisfy each criteria contained in the legislation mandating the study (3-7) and two additional criteria that the SEO believes to be appropriate (1-2).

1. Consistency With the Vision and Mission of the SEO

Transfer of Federal fund acquisition and administration meets this criterion. The SEO was established, in part, because of the existence of several local school districts within its boundaries and the appearance of conflict of interest when one of those districts, DCPS, allocated Federal funds among them. In addition, the SEO is designed to conduct activities that involve all school districts in D.C., leaving to individual districts those matters that are pertinent only to them.

2. Effect on the Transferring Agency

While the transfer will result in loss of state administration funds by DCPS, the functions will also be removed, so the effects of transfer should be neutral. However, to the extent that DCPS may have been using state administration funds to carry out local educational agency responsibilities, the transfer could pose a hardship.

3. Effect on the Quality of Educational and Other Services to Children and Adults

The recommended option has the potential for improving services to children in two ways. First, it will relieve DCPS of functions it has found difficult to perform, allowing that agency to concentrate on serving the children in its schools. Second, it will provide better service to charter schools in relation to Federal grants, both through technical assistance and monitoring. Monitoring is helpful to public charter schools that may not be familiar with

Federal requirements and will ensure that dollars are spent on the children and for the services that the Federal government intended.

4. Potential for Duplication of Functions

The recommended option should have no effect on this criterion.

5. Effect on Reporting Requirements

There will be no change in reporting requirements. However, the role of the SEO as administrator of Federal grant activities and as writer of reports for the Federal government might result in some additional time for both DCPS and the charter schools. This should not be significant, however.

6. Potential for Conflict of Interest

The recommended option will reduce conflict of interest.

7. Effect on Cost

Since most Federal programs contain dollars to be used for state administration, there should be no additional cost to the District. Currently, only \$10,000 of general revenue is used to support the state office in DCPS. There is a budget request to increase that to \$100,000 in the upcoming fiscal year. Federal dollars that DCPS currently retains will be transferred, over time, to the SEO, as the function is transferred. However, as noted above, to the extent that DCPS may have been using these dollars to carry out local educational responsibilities, there will be a loss of revenue to DCPS.

F. Transition Plan for the Recommended Option

1. Authority and Responsibility of Each Party at Each Stage of the Transition

Since the transfer will entail significant changes in the operation of DCPS and has direct impact on the public charter schools, the SEO does not believe it should construct a detailed transition plan without the direct involvement of those two parties. Further, there may be the need for additional legislation by the Council to effectuate the transfer. Of prime importance is that the transfer and the accompanying transition not disrupt services to children.

The SEO believes that the timing of the transfer should, to the extent possible, coincide with the Federal legislative timetable for changes to the programs that will be considered during the Congressional reauthorization. See below for a discussion of this issue.

SEO Federal Programs Transition Team

A transition team, with members from the SEO, DCPS, public charter schools, and the D.C. Board of Education, should be established to work out the details of the transfer and oversee its implementation. To make certain that the transition begins as soon as possible, the team should be assembled within three weeks of the decision to make the transfer. The team should have the authority to consult with outside professionals with knowledge of the operation of Federal programs and state programs, as well as access to legal counsel. Among the issues to be considered is the future of the current Office of Categorical Programs in DCPS.

While the final transfer of authority should coincide with the reauthorization of programs, the transition team would outline interim steps the SEO should undertake to be prepared for full responsibility. These might include the following:

- building internal capacity to operate the programs;
- participating in meetings and other contacts between DCPS and the U.S. Department of Education;
- tracking the reauthorization process of the various programs and making appropriate recommendations to Congress on matters of importance to the District of Columbia;
- providing information and technical assistance on Federal programs to public charter schools;
- developing organizational and staffing plans for the state office;
- becoming knowledgeable about particular aspects of Federal programs, such as audit and reporting requirements;
- establishing a sound working relationship with the U.S. Department of Education and other Federal agencies providing Federal funds to District of Columbia schools; and
- establishing a position(s) in the SEO to handle Federal programs. The position could be filled by transfer from the Office of Categorical Programs, from some other D.C. agency, or by hiring from outside. The SEO should consider using this position to name a Director of Federal Programs, since that would allow the Director to be involved, from the outset, in establishing the unit and providing direct involvement in the transition process.

Consultation Between DCPS and the SEO

Until each program is officially transferred, DCPS would maintain its current authority and responsibility for it. However, regular consultation between DCPS and the SEO would be necessary to ensure a smooth transition. The transition team should work out details on how this consultation would be carried out.

2. Dates and Benchmarks for Assumption of Authority, Responsibility, Budget, and Employees

Federal programs normally have beginning and ending dates and, when each end date is reached, Congress considers changes to the program, reauthorizes some programs, may initiate new ones, and may abandon others that it finds have not been successful. With the reauthorization of each major program comes a requirement for a new state plan and a new set of state responsibilities. The SEO proposes that the transfer of the programs coincide with the passage of each major reauthorization, understanding that this is subject to approval by the U.S. Department of Education. The schedule for reauthorization of the major programs is listed below. However, it is possible that some of these dates may slip if Congress fails to meet them. In such cases, Congress normally extends current authority for an additional [something], in which case the final transfer could be delayed. However, if Congress, for a second year, fails to complete reauthorization, programs should be transferred without further delay.

Elementary and Secondary Education Act, all parts	2001
Individual with Disabilities Act	2002
Vocational Educational Act	2003

Typically, new legislation goes into effect the year following that in which it was enacted to enable states to become familiar with provisions and to allow for Federal regulations, and the like. For that reason, the Elementary and Secondary Education Act, to be passed this summer, will become effective in the fall of 2002, with state plans likely to be required in the spring of that year. The transfer of programs in ESEA to the SEO, with the construction of the new state plan and regarding grants received under it, makes both programmatic and logistical sense. The same is true for the other major programs. DCPS responsibility would end with the close of current state plans, and SEO responsibility would begin with the adoption of new ones. Essentially, the first major activity for the SEO would be the construction of the new ESEA state plan.

The schedule for programs not included in these three major pieces of legislation can be worked out separately by the transition team.

New programs would be the responsibility of the SEO.

3. Estimated Cost to the SEO for Assumption and Management of the Function and Recommended Sources of Revenue

As noted earlier, the SEO was unable to obtain from DCPS a full accounting of persons in the organization currently being paid with state administration funds. However, when the downsizing of the state office occurred in the mid-1990s, 47 persons were identified as being paid from Federal funds. Currently, all 23 persons in the Office of Categorical programs, as well as others scattered throughout DCPS, are paid from these funds. A major task of the transition team would be to get an accurate tally of dollars DCPS receives for state agency

activities and a full report on individuals being paid with these funds. It is anticipated that these funds will be sufficient for the SEO to carry out the function after transition is complete.

During the transition period, however, funds will be needed to support the transition team in building the capacity of the SEO. While Federal, state-level administration funds may be used for these activities, this might diminish funds available to DCPS for the administration of its programs during the transition. The SEO believes, therefore, that to ensure proper services, consideration should be given to provision of appropriated funds for the transition. To provide one full-time equivalent staff member in the SEO and provide support for the transition, the SEO estimates a need for \$175,000 for each of the first two years of transition. At the end of a two-year period, sufficient state administration funds from programs transferred should be available to meet costs.

4. Factors With Potential for Disrupting Services to Students and Recommended Steps to Prevent Disruption

The need to maintain services during the transition

DCPS will need to vigilantly continue to act as the SEA for each program as each is transferred. This will be difficult since the administration of the programs is tied together.

The need to gain approval from the U.S. Department of Education for the phased transfer

While not necessarily a situation that could lead to disruption of services, it will be necessary to get this approval early on. Approval should come from the U. S. Secretary of Education.